



Wisconsin Should Help Small Businesses with Targeted Grants, Not PPP Double-Dipping

The Top Five Problems with the Proposed \$419 Million Tax Break for PPP Funding

Wisconsin state lawmakers are rushing to pass a new tax break for businesses, with a minimum of opportunities for public input. The tax cut would significantly reduce the amount of resources Wisconsin has to invest in families, schools, and communities that have been battered by the pandemic and the recession, and it would fail to help many small businesses who are the intended beneficiaries.

On February 11, the Joint Finance Committee introduced and approved an amendment (Assembly Substitute Amendment 1 to Assembly Bill 2) that will create a very expensive new tax break for businesses that got federal loans from the federal Paycheck Protection Program (PPP) and are able to get those loans forgiven. The bill is expected to be voted on in both the Assembly and the Senate on Tuesday, February 16.

The tax break in question was adopted for federal tax purposes in late December, but states often choose not to incorporate federal tax changes in their state tax codes, especially if the change is very expensive. There are many substantial problems with the new tax break and the rushed process for potentially approving it in Wisconsin. These are our top five concerns:

1) Allowing a forgiven loan to be used to capture two different tax breaks is bad policy and a dangerous precedent

The new tax break for forgiven PPP loans violates sound principals of taxation by allowing businesses to use the PPP funds for two different state tax breaks, which amounts to “double dipping.” Wisconsin policymakers already decided last spring, as part of Act 185, to exempt PPP funds from income, despite the principle of tax law that forgiven loans are typically counted as income. Now legislators have proposed to not only continue the exemption from income, but have also proposed allowing businesses to take a deduction for expenses paid with taxpayers’ money.

This tax change is equivalent to allowing someone who has an expensive hospital stay to get a large tax deduction for the costs of the hospitalization, even when those costs are entirely paid by Medicare or other insurance. Allowing double dipping for businesses would be a dangerous precedent and would create an unfair advantage for businesses that took PPP funds, compared to those that didn’t.

2) Many proponents of this tax break have been misrepresenting the issue

Many of the advocates for this tax break have argued that not approving it would amount to imposing a tax on PPP funds. That’s patently false because Wisconsin already exempts forgiven PPP loans from

income. States that choose not to adopt a deduction for forgiven PPP loans – on top of the income exemption – are not imposing a tax increase; they are declining to provide an *additional* tax break.

3) Before the legislature even begins debating the budget bill, the new PPP tax break will take \$419 million of tax revenue off the table

Wisconsin faces many fiscal challenges as the state and local governments cope with the effects of the COVID-19 pandemic and the severe recession, as well as longer term problems, including policy choices that have systematically hurt low-income areas of the state and communities of color. Before the Legislature even begins to debate how to address those issues and balance the 2021-23 budget, the amended version of Assembly Bill 2 will cut state tax revenue by about \$540 million. Of that amount, \$419 million will come from allowing businesses to get a double tax break for PPP grants. That amount will grow substantially if the same tax breaks are applied to the next round of PPP funding.

4) There are far more effective ways to help the state economy and the businesses most in need of assistance

Many of the small businesses that are most at peril because of the pandemic will get little or no advantage from this new tax break. The small employers in danger of going out of business typically have expenses well in excess of their current income, so they will get very little benefit, if any, from getting to deduct the cost of expenditures made with PPP funds.

Large profitable businesses, who may have gotten PPP loans of up to \$10 million, will be the primary beneficiaries. It's estimated that 15% of Wisconsin recipients of PPP loans will get 85% of the benefit of the proposed tax exemption. It would be much more effective to use some of the state revenue in question to make targeted grants to small businesses. Capping the amount of each PPP tax deduction would free up much of the \$419 million and enable it to be used in more productive ways.

5) Holding floor votes on this proposal just a few days after it was unveiled precludes public consideration and input

The \$419 million tax cut is being considered on the floor of both the Assembly and the Senate just five days after the amendment was unveiled in committee. Because this costly proposal was not part of the original bill, there was never a public hearing on the issue, or any cost estimate in the fiscal note. As a result, most people who have reservations about the wisdom of doubling a large state tax break for businesses, or who have ideas for other ways of using the funding the state will lose, have been completely excluded from the process of making such an important policy decision.

[The Wisconsin Budget Project](#), an initiative of Kids Forward, is an independent Madison-based research group that focuses on tax and budget policy.